

Message Text

CONFIDENTIAL

PAGE 01 GENEVA 06980 01 OF 03 151827Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----042169 151833Z /44
P 151807Z AUG 77
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 318
INFO AMEMBASSY BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 1 OF 3 GENEVA 6980

EXDIS, USMTN

BRUSSELS FOR USEEC AMB HINTON

ACTION STR FOR AMB STRAUSS, WOLFF, MCDONALD

EO 11652: GDS
TAGS: MTN, GATT, ETRD
SUBJ: MTN: INDUSTRIAL TARIFFS FORMULA AND EXCEPTIONS

REF: BRUSSELS 9594

1. AMB HINTON'S TIMELY ASSESSMENT OF EC COMMISSION ATTITUDES ON MTN TARIFF NEGOTIATIONS (REFTEL) CERTAINLY BEARS OUT THE PERSONAL VIEWS OF MOST US PARTICIPANTS AT TIDEWATER THAT EFFORTS TO RECONCILE US AND EC VIEWS ON AN ACCEPTABLE OVERALL TARIFF PLAN IS LIKELY TO PRECIPITATE THE FIRST GENUINE "CRISIS" OF THE MTN. AMB HINTON'S EXCELLENT REBUTTAL OF THE DENMAN PROPOSITION WILL, I HOPE, HELP CONVINCE THE TOP LEVELS IN BRUSSELS TO DON THEIR THINKING CAPS IMMEDIATELY AFTER THE AUGUST BREAK, RATHER THAN WAIT FOR THE US TO SETTLE FOR THE KIND OF TARIFF-CUTTING APPROACH DENMAN HAS ADVANCED. THE EXIGENCIES OF THE AGREED TIMETABLE REQUIRE A US-EC ACCOMMODATION BY THE 3RD WEEK OF SEPTEMBER. IN THIS CONTEXT, IT IS GOOD TO KNOW THE COMMISSION HAS NOT YET
CONFIDENTIAL

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PAGE 02 GENEVA 06980 01 OF 03 151827Z

PUT A FORMAL PROPOSAL TO THE MEMBER STATES BECAUSE IT WOULD BE ALL THE MORE DIFFICULT TO PERSUADE THE COMMISSION TO REVISE A PROPOSAL ALREADY BLESSED BY THE MEMBER STATES.

2. AN "ACCOMMODATION" OF US-EC DIFFERENCES IS UNLIKELY TO FIND EITHER PARTY RALLYING, IN THE SPACE OF A FEW

WEEKS, TO THE POSITION TAKEN BY THE OTHER. WE MUST FIND SOME MIDDLE GROUND BOTH CAN LIVE WITH. THE TWO KEY PROBLEMS (THERE ARE OTHERS OF COURSE) ARE THE APPROACH TO EXCEPTIONS AND DEPTH OF CUT; BOTH ASPECTS ARE SO CLOSELY INTERTWINED THAT THEY ARE, I BELIEVE, A SINGLE PROBLEM.

3. THE COMMISSION SEEMS TO BELIEVE THAT AN APPROACH TO EXCEPTIONS CAN BE WORKED OUT BETWEEN THE US AND EC WITHOUT MUCH REGARD TO VIEWS OF OTHER KEY PARTICIPANTS. DESPITE BOTH JAPAN AND CANADA HAVING MADE IT CLEAR THAT THEY WILL HAVE TO INSIST ON SOME EXCPETIONS NO MATTER WHAT DEPTH-OF-CUT IS FINALLY SELECTED (AND, OF COURSE, SO HAS THE US), DENMAN HAS PROPOSED A "NO INITIAL EXCEPTIONS" RULE. WITHOUT DISPARAGING THE SINCERITY OF COMMISSION FEARS ABOUT OPENING AN INTRA-MEMBER STATE PANDORA'S BOX IF ANY EXCEPTIONS (OTHER THAN US MANDATORIES) ARE AUTHORIZED BY THE AGREED TARIFF PLAN, I THINK IT IS REASONABLY CLEAR THAT THE US (AND OTHER COUNTRIES') POSITION IS SUPPORTED BY PERSUASIVE LOGIC, NAMELY, THAT THE ECONOMIC HEALTH OF INDIVIDUAL INDUSTRIES AND PARTICULAR PRODUCTS WITHIN PARTICULAR SECTORS IS DIFFERENT SOME CAN "AFFORD" DEEPER CUTS THAN OTHERS. TO TREAT ALL INDUSTRIES AND PRODUCTS IDENTICALLY MAKES SENSE ONLY IF ONE CONTEMPLATES A

CONFIDENTIAL

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PAGE 03 GENEVA 06980 01 OF 03 151827Z

CUT SO PUNY AS TO HAVE IMPERCEPTIBLE EFFECTS. THE EC FORMULA (WHETHER ITERATED FOUR OR THREE TIMES) WOULD INDEED HAVE PUNY EFFECTS ON THE EC CXT (BECAUSE OF ITS MORE UNIFORM LEVEL ACROSS DIFFERENT SECTORS), BUT THE EFFECTS ON THE US WOULD BE FAR FROM PUNY -- CALLING, FOR EXAMPLE, FOR A 60 PERCENT CUT IN SEVERAL US TEXTILE RATES ABOVE 30 PERCENT, WHILE THE EC WOULD CUT ITS GENERALLY LOWER TEXTILE TARIFFS MUCH LESS. HARMONIZATION OF TARIFF RATES HAS, OF COURSE, LONG BEEN AN EC OBJECTIVE (AND WITH TEXTILE TARIFFS VERY MUCH IN MIND), BUT IT IS HARD TO IMAGINE THE EC THINKS WE WOULD ACCEPT A FORMULA CONTAINING SO EXTREME A HARMONIZATION ELEMENT AS $Y = X$ (AGAIN, IRRESPECTIVE OF THE NUMBER OF ITERATIONS) UNDER THE GUISE OF AVOIDING EXCEPTIONS.

CONFIDENTIAL

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PAGE 01 GENEVA 06980 02 OF 03 151839Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----042289 151856Z /50

P 151807Z AUG 77

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 319

INFO AMEMBASSY BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 2 OF 3 GENEVA 6980

EXDIS

4. THE U.S. TARIFF FORMULA PUT FORWARD IN 1976 WAS ALMOST AS EXTREME AS THE EC'S (BUT IN THE OPPOSITE DIRECTION, I.E., NEARLY LINEAR WITH ONLY TOKEN HARMONIZATION). WE HAVE TRIED TO MAKE IT CLEAR THAT OUR FORMULA WAS AN INITIAL NEGOTIATING POSITION AND WE WERE (AND ARE) NOT WEDDED TO ITS PRECISE MATHEMATICAL EXPRESSION. PRIVATELY, WE HAVE TOLD MANY PARTICIPANTS, INCLUDING THE EC, THAT WE COULD ACCEPT MORE HARMONIZATION THAN OUR FORMULA INVOLVED IF OTHERS WOULD OFFER A DEEPER OVERALL CUT THAN THEIR FORMULA INVOLVED.

5. IN THE LIMITED TIME AVAILABLE TO REACH A US-EC ACCOMMODATION, BOTH SIDES NEED TO ABANDON THEIR EXTREME POSITIONS. WE ARE SIMPLY NOT GOING TO BE ABLE TO PERSUADE THE EC TO ADOPT A DEEP LINEAR CUT OF CLOSE TO 60 PERCENT WITH MINIMAL HARMONIZATION AND THE EC SHOULD BE EQUALLY REALISTIC IN RECOGNIZING THEY ARE MOST UNLIKELY TO BE ABLE TO PERSUADE US TO ADOPT PRACTICALLY A PURE HARMONIZATION FORMULA UNDER WHICH WE CUT A GREAT DEAL AND THEY CUT HARDLY AT ALL.

6. THE DOWNING STREET SUMMIT COMMITMENT TO "A TARIFF REDUCTION PLAN OF BROADEST POSSIBLE APPLICATION DESIGNED TO ACHIEVE A SUBSTANTIAL CUT AND HARMONIZATION AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 GENEVA 06980 02 OF 03 151839Z

IN CERTAIN CASES THE ELIMINATION OF TARIFFS", GIVES US A HANDLE TO TRY TO GET THE COMMISSION TO WORK WITH US IN THE OPENING WEEKS OF SEPTEMBER TO FIND A SOLUTION THAT BRIDGES OUR DIFFERENCES (RATHER THAN, AS DENMAN'S PROPOSAL WOULD, EXACERBATE OUR DIFFERENCES

BY RETREATING FROM THE MODEST CUT ALREADY FORMALLY PROPOSED BY THE EC).

7. MTN DEL GAVE ABM WOLFF AND OTHER SENIOR STR OFFICIALS IN LATE JULY SOME PRELIMINARY IDEAS ON POSSIBLE WAYS TO BRIDGE US-EC DIFFERENCES. WE WILL NOT REPEAT THEM HERE IN DETAIL AS WE KNOW INTENSIVE WORK IS UNDERWAY IN WASHINGTON TO FIND THE BEST "FIT" AMONG OUR OWN ECONOMIC INTERESTS WHILE FACING UP TO THE PROBLEM POSED BY THE APPARENT EC RELUCTANCE EITHER TO ENGAGE IN AN EXCEPTIONS EXERCISE OR OFFER MORE THAN A VERY MODEST CUT. THE ESSENCE OF OUR SUGGESTIONS, HOWEVER, WAS THAT WE CONSIDER EITHER (A) A TWO TRANCHE APPROACH (A MODEST INITIAL CUT WITH NO EXCEPTIONS (SAVE MANDATORIES) FOLLOWED BY A SECOND COMPARABLE CUT, WITH EXCEPTIONS, BOTH CUTS TO FORM PART OF AN OVERALL AGREEMENT BY OCT 1 THIS YEAR EVEN THOUGH THE EXCEPTIONS EXERCISE PRIOR TO THE SECOND TRANCHE COULD BE DEFERRED UNTIL 1979, PERHAPS COUPLED WITH A "GO-NO GO" DECISION IN 1979 DEPENDING ON THE PACE OF RECOVERY IN AT LEAST THE BIG SEVEN); OR (B) ABANDON ALL EXISTING FORMULAE AND AIM FOR A TARGET DEPTH OF CUT SOMEWHAT MORE AMBITIOUS THAN WOULD RESULT FROM Y EQUALS X ITERATED THREE OR FOUR TIMES, COUPLED WITH A PROCEDURE FOR BILATERAL AND PLURILATERAL HAGGLING OVER THE AMOUNT OF REDUCTION, INCLUDING THE POSSIBILITY OF DUTY ELIMINATION, ON PRODUCTS OF PARTICULAR INTEREST TO

CONFIDENTIAL

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PAGE 03 GENEVA 06980 02 OF 03 151839Z

KEY DCS AND LDCS.

8. AMB HINTON ALLUDED TO THE LATTER APPROACH IN REFERRING (PARA 18 REFTEL), TO DENMAN'S APPARENT FALL-BACK POSITION OF MULTIPLE FORMULAE. WE ARE NOT AT ALL ATTRACTED TO DENMAN'S FORMULATION, HOWEVER, BECAUSE IT GIVES TOO MUCH FLEXIBILITY TO PARTICIPANTS. TO TAKE AN EXTREME EXAMPLE, OUR CALCULATIONS INDICATE THE EC COULD REACH A 30 PERCENT OVERALL DEPTH TARGET BY MAKING VERY DEEP REDUCTIONS ON THE 462 TARIFF LINES (DUTIABLE INDUSTRIAL, NONPETROLEUM) WHICH ACCOUNT FOR A US SHARE OF MFN EC IMPORTS LESS THAN 10 PERCENT. THEY THEN NEED MAKE NO CUT AT ALL ON ANY SIGNIFICANT US EXPORT ITEMS. FROM THE EC'S POINT OF VIEW, THEY WOULD HAVE TO EXPECT US TO AVOID CUTTING OUR SENSITIVE ITEMS, NOT TO MENTION AVOIDING HARMONIZATION. IF

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PAGE 01 GENEVA 06980 03 OF 03 151854Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----042429 151914Z /50

P 151807Z AUG 77
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 320
INFO AMEMBASSY BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 3 OF 3 GENEVA 6980

EXDIS

THE TARGET DEPTH-OF-CUT APPROACH IS TO WORK, THE FLEXIBILITY IT GIVES MUST BE CONSTRAINED BY COMBINING IT WITH AN AGREED TARIFF FORMULA AND RESTRAINT ON EXCEPTIONS. ONE WAY TO ACHIEVE THIS WOULD BE TO COMBINE A DEEPER CUTTING FORMULA WITH ALLOWANCE FOR EXCEPTIONS WHICH WOULD REDUCE THE OVERALL CUT TO AN AGREED TARGET. ANOTHER OPTION IS TO AGREE TO A TARGET DEPTH-OF-CUT ABOVE THAT ACHIEVED BY THE FORMULA AND REQUIRE COUNTRIES TO ACHIEVE THE TARGET BY DEEPER-THAN-FORMULA CUTS. IN THIS REGARD, SOME PROCEDURAL GUARANTEE OF MEANINGFUL BILATERAL NEGOTIATIONS RATHER THAN JUST AUTOMATIC APPLICATION OF A MATHEMATICAL FORMULA IS PROBABLY ESSENTIAL. WE HAVE ALWAYS CONTEMPLATED A MEANINGFUL BILATERAL NEGOTIATING PHASE ON TARIFFS DURING WHICH WE WOULD HAVE THE CHANCE TO PURSUE PARTICULAR PRIORITY FOREIGN TARIFF OBJECTIVES IDENTIFIED BY OUR INDUSTRY ADVISORY GROUPS. EVEN ASSUMING ADOPTION OF A COMPROMISE FORMULA, WE NEED THIS OPPORTUNITY TO SEEK SPECIFIC DEEPER-THAN-FORMULA CUTS AND TO CHALLENGE THEIRS' EXCEPTIONS (THE CANADIANS AND JAPANESE), IF WE ARE TO ACHIEVE A TARIFFS PACKAGE ACCEPTABLE TO OUR ADVISORS AND CONGRESS.

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PAGE 02 GENEVA 06980 03 OF 03 151854Z

9. WITH REGARD TO AMB HINTSON'S SUGGESTION IN
PARA 17 (THREE ITERATIONS OF $Y = X$, THEN SUB-
TRACTING A CONSTANT), ALTHOUGH HIS IDEA WOULD INDEED

HAVE SOME ATTRACTIONS FOR CANADA K(ELMINIATION OF LOW DUTIES), THE FACT IT RESTS ON THE Y EQUALS X FORMULA CARRIES UNACCEPTABLE CONSEQUENCES FOR THE US, AS DISCUSSED IN PARAS 3 TO 5 ABOVE.

10. EC COMMISSION APPARENTLY ENVISIONS THAT EC CAN SATISFY ITS EXCEPTIONS NEEDS BY RESPONDING TO US MANDATORY EXCEPTIONS BY WITHDRAWAL OF OFFERS, BUT WE HAVE NEVER HEARD HOW EC PLANS TO ACCOMPLISH THIS. US DEL ANALYSIS SHOWS THAT FOR 1975, US IMPORTS FROM EC OF ITEMS CURRENTLY MANDATORILY EXCLUDED FROM NEGOTIATIONS AMOUNTED TO \$775 MILLION. OF THIS \$327 MILLION WERE IMPORTS OF PETROLEUM AND RELATED ITEMS, AND ALTHOUGH NO DECISION HAS YET BEEN TAKEN, IT IS WIDELY ASSUMED THAT CRUDE PETROLEUM, AT LEAST, AND POSSIBLY ALL OF CCCN CHAPTER 27 WILL BE SUBJECT TO "SPECIAL RULES" (SEE GENEVA LOU 5075). EVEN IF PETROLEUM WERE INCLUDED, WE WONDER WHETHER EC REALIZES THE RELATIVELY SMALL TRADE INTEREST IT HAS IN US MANDATORIES AND THE RESTRAINTS THUS IMPOSED ON EC'S ABILITY TO SATISFY ITS OWN NEEDS BY WITHDRAWING TO MATCH US MANDATORIES. EC GENEVA REPS HAVE INDICATED VERY LITTLE CONCRETE ANALYSIS HAS BEEN CARRIED OUT SO FAR AND THEY MAY BE UNDER THE IMPRESSION THAT US MANDATORIES ARE LARGER THAN IN FACT THEY ARE.

11. HOPEFULLY, WASHINGTON'S CURRENT INTENSIVE REVIEW WILL COME UP WITH SEVERAL ALTERNATIVE OPTIONS TO EXPLORE WITH THE EC. I BELIEVE THERE ARE VIABLE OPTIONS THAT CAN, WITH REASONABLY GOOD WILL, BRIDGE
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PAGE 03 GENEVA 06980 03 OF 03 151854Z

OUR DIFFERENCES. WE ARE READY, I THINK, TO MOVE OFF OUR FORMULA. BUT IS THE EC WILLING TO MOVE FORWARD RATHER THAN RETREAT FROM THE VERSION THEY PREVIOUSLY PUT FORWARD? AMB HINTON HAS DONE AN EXCELLENT JOB IN LETTING THE TOP LEVELS IN BRUSSELS KNOW THEY WILL HAVE TO DO SO IF WE ARE TO CARRY OUT OUR MUTUAL COMMITMENT TO A MEANINGFUL AND SUCCESSFUL MTN. CULBERT

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TARIFFS, FOREIGN TRADE, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Aug-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977GENEVA06980
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770294-0062
Format: TEL
From: GENEVA
Handling Restrictions:
Image Path:
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Legacy Key: link1977/newtext/t19770862/aaaacajv.tel
Line Count: 322
Litigation Code IDs:
Litigation Codes:
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Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 77 BRUSSELS 9594
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1604616
Secure: OPEN
Status: NATIVE
Subject: MTN: INDUSTRIAL TARIFFS FORMULA AND EXCEPTIONS
TAGS: ETRD, GATT, MTN
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/721df25a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009